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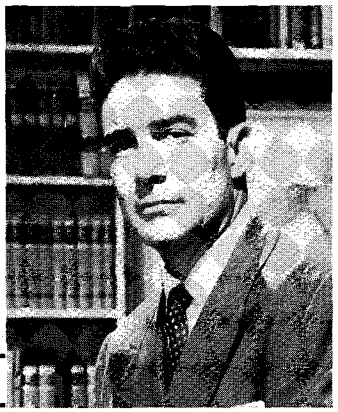

DAN SMOOT

WITHHOLDING TAX—PART II

Dr. Beardsley Ruml died on April 18, 1960. He was a member of the Council on Foreign Relations; Assistant to the President of the Carnegie Corporation of New York; a Director of the Laura Spelman Rockefeller Memorial; a Trustee of the Spelman Fund of New York; a Dean of the Social Science Division of the University of Chicago; the Treasurer and Chairman of the Board of R. H. Macy & Company; a Trustee of the Committee for Economic Development; and a member of the Commission on Money and Credit (whose recommendations formed the basis for Kennedy's major legislative proposals in 1962).

In short, the late Dr. Ruml was a key figure in America's Invisible Government: the Council on Foreign Relations, whose members occupy controlling positions in the federal government, in education, in great foundations, and in the media of mass communications. The objective of this Invisible Government is to convert the United States into a socialist dictatorship, which will be a dependent part of a world-wide socialist system.

Dr. Ruml accomplished a lot in pushing us toward that objective: he was the father of the federal withholding tax system.

His accomplishments should be viewed against the backdrop of history.

The Ancient Struggle

The essential political struggle of our time is the conflict between individual men and all-powerful-government, between *individualism* and *collectivism*.

The forces representing all-powerful-government have had various names. In our own age, they have been known as communists, fascists, nazis, new dealers, fair dealers, modern republicans, new frontiersmen, welfare staters, liberals, fabians, agrarian reformers. Each one is a little different from the others.

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The groups who believe in all-powerful-government are frequently in conflict over the differences between them. Communists hate fascists. New-fair-dealers and modern republicans condemn communists; welfare staters bristle at being called socialists; and so on.

The word *collectivist,* however, accurately applies to all of them, because they all believe essentially the same thing: namely, that individual human beings are incapable of governing themselves; that people will not prepare for their own old age, or build proper houses for themselves, or educate their own children, unless government makes them.

It follows that the forces of all-powerful-government, though split into bickering factions, all have the same goal: a world-wide superstate which will control every human being and thus create a socialist paradise.

At the beginning of America's national life, collectivists were, as always, powerful; but individualists were in control. Our national life began, in 1776, with the Declaration of Independence. The Declaration proclaimed the great American ideal: firmly relying on the protection of Divine Providence, it asserted the self-evident truth that all men are endowed *by their Creator* with unalienable rights; and that governments are instituted, *not* to give men any rights, but merely to secure the rights which God has already given them.

Individualists were still in control in 1789, when the Constitution was written to establish the Great Ideal as organic law.

Individualists who wrote the Constitution were called "strict constructionists," because they felt that the Constitution means strictly what it says, and should be strictly construed that way. It grants specific powers to the federal government and emphatically says that the government shall have no other powers.

Collectivists were called "loose constructionists." They were patriots in the sense that they wanted American independence from foreign governments; but they did not believe in the great ideal imbedded in the Declaration of Independence. They could not imagine an organized society in which people would be practically independent of *their own government.* Their thinking was deeply dyed with the concept of government prevalent throughout the world, and throughout history, prior to 1776: namely, that rights and powers reside in government, and that a "good" government is one which gives the people a maximum of rights and powers.

From 1789 to 1913, the political struggle between individualists (who believed in a "strict" interpretation of the Constitution which would limit government to powers specifically granted) and collectivists (who believed in a "loose" interpretation permitting Government to do anything which the President and Congress claimed to be good) was bitter and relentless, but it seldom threatened disaster to the cause of liberty, because the individualists had a built-in, constitutional advantage.

Advocates of all-powerful-government (collectivists) could win the Presidency and both houses of Congress but could not (except during the Civil War and Reconstruction, when the Constitution was ignored) inaugurate programs which would destroy liberty, because they could not get their hands on enough of the peoples' money to pay for their schemes.

Before 1913, our old Constitution placed a severe limit on the federal government's means of confiscating, through taxes, the wealth of the people. This meant that the Jeffersonian-Madisonian ideal of a government with limited power was so firmly lodged in the Constitution that the collectivists could not get it out without major surgery.

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In 1913, that major surgery was performed: the Sixteenth, or Income Tax, Amendment was adopted.

Since 1913

The Income Tax Amendment radically altered the nature of the American governmental system. The Federal Government was no longer a *limited* government: it now had limitless access to the wealth of the people.

But old ways and thought-patterns are hard to break. It was 20 years after the Income Tax Amendment was adopted before collectivists fully realized they had acquired the means of converting the federal government into an all-powerful dictatorship. All they needed was a leader who could keep the public from understanding the true course of events, and win public support for collectivist policies by convincing the people that all was being done for their welfare.

Franklin D. Roosevelt was such a leader. He perfected the practice of buying public support with public money: appealing to the greed of people by promising to fill their needs with funds derived from taxes imposed on someone else.

The New Deal was not one year old, however, before the people began to realize that they, themselves, and not "someone else," were being taxed for benefits which sounded good in a Fireside Chat but seemed a doubtful bargain when received.

Roosevelt was quick to realize that if you impose too much tax on people to pay for the "benefits" you promise them, they tend to complain about the tax and forget the "benefits."

He found a way out: he repudiated the government's pledge to redeem its own currency in gold, and made the people turn in their gold for a cheapened paper currency — vast quantities of which were pumped into the banking system. That deceived the people for only a little while, and Roosevelt had to find another expedient.

He found one: deficit financing — borrowing from future generations to pay for political support from the present generation. This seemed a sure way to make people think governmental benefits "are something for nothing." It had that effect for a brief period.

But deficit financing causes inflation. That may feel all right at first; but, presently, old people living on fixed amounts; people on pensions; people on the same salaries they used to have — all begin to suffer, because their dollars won't buy enough.

The vote-buyers begin to lose some of the votes they have bought. They can pass minimum-wage laws forcing some employers to pay wages above the free-market level. They can give international unions the sanction of law to force industry-wide wage rises. All such measures give temporary relief to voters who have been hurt by inflation; but the relief vanishes and conditions get worse when prices rise (as they must) to keep pace with the wage-spiral which government is forcing upward.

Ultimately, the senseless squandering of public funds requires higher taxes on the people. How can you keep people from rebelling against taxes when taxes reach such heights that many workers have to pay out more for federal taxes than for either of the three essentials of life — food, clothing, or housing?

In 1941, Beardsley Ruml provided an answer to this baffling question — the withholding tax: force a man's employer to collect the tax before the employee gets his salary check.

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This does a number of things.

It places the stigma and the expense of tax-collecting on employers rather than on government; and it eliminates popular complaint against high and rising taxes, because workers do not fully realize that taxes are high and rising.

A man doesn't have to save and manage so that, at the end of the year, he can give government 25% or 40% or 50% of his earnings for the whole year. All of that has been done by the employer, at the employer's expense. The average worker pays little attention to tax deductions from his paycheck. He adjusts himself to take-home pay. If that is not enough, he and his family resent the employer, not government. They do not demand lower taxes: they demand higher wages.

Withholding tax can, indeed, make taxes pleasant. Internal Revenue Service schedules require employers to deduct (more often than not) more taxes than the employee owes. At the end of the year, government sends the employee a rebate — a bonus, bigger, in millions of cases, than any bonus the employer ever gives. Thus, beneficent government gives back to workers a portion of the money which employers took away from them!

Dr. Beardsley Ruml presented the withholding tax scheme to Henry Morgenthau (Roosevelt's Secretary of the Treasury), and Morgenthau presented it to Roosevelt. It was a perfect scheme: it would give government absolute and invincible taxing power over the people, without arousing their resentment.

But, in 1941, we still had a Constitution — badly damaged, but still powerful enough to require government to observe certain formalities. It was necessary for Congress to "authorize" the withholding plan. That necessity could be a serious obstacle.

There were strong constitutionalists in Congress; and the withholding plan clearly violates fundamental provisions of the Constitution.

The Thirteenth Amendment says:

"Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States. . . ."

Slavery and *involuntary servitude* mean, essentially, forcing someone, against his will, to work or serve.

If you force a man to serve as tax-collector and bookkeeper for the government — without paying him for his time or his expense, but subjecting him to severe penalties if he makes errors or in any way fails to comply with administrative rules, however complicated and profuse — you certainly are imposing involuntary servitude upon him.

The Fifth Amendment says:

". . . nor shall any person be . . . deprived of life, liberty, or property, without due process of law. . . ."

If you compel employers to deduct money from employees' paychecks for taxes that are not due when the deductions are made; and if (as is the case with more than half of all wage earners) you compel the deduction of more money than the employee will owe when his taxes are due — you certainly are depriving those employees of their property (money), without due process of law.

Roosevelt, Morgenthau, and Ruml anticipated that Congress might balk at "authorizing" a taxing scheme which violates such fundamental provisions of our Constitution.

So, they employed a technique which Roosevelt made wide use of — and which was subsequently perfected by Truman, Eisenhower, and Kennedy: they set a group of experts (76 learned economists) to work on a study, intended to show unenlightened Congressmen that a withholding tax is progressive and absolutely necessary in the modern world.

The learned liberal economists presented their study in the spring of 1941, urging the

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House Ways and Means Committee to install a withholding tax system. The Committee rejected the scheme.

In November, 1941, Secretary Morgenthau made a direct plea to the Ways and Means Committee for a withholding tax. The Committee refused; but in December, 1941, the United States went to war; and Roosevelt had an "emergency" to intimidate Congress.

Early in 1942, Secretary Morgenthau again asked Congress for a withholding law. But this time Mr. Morgenthau asked only for a "war emergency" measure. He did not ask for a *permanent* withholding tax system: just a "Victory Tax," a *temporary* system, to help win the war.

That did it. The Revenue Act of 1942 (October 21, 1942) authorized a five percent Victory Tax on gross incomes — to be withheld from salaries.

The Current Tax Payment Act of 1943 (June 9, 1943) absorbed the *temporary* withholding provision for the Victory Tax, making it permanent and applicable to all federal tax on personal incomes.[1]

As soon as the withholding practice had become an "accepted" feature of our taxing system, administration planners started urging Congress to extend it — to include earnings on interest, dividends, and investments. Congress resisted these efforts, throughout the Truman and Eisenhower Administrations.

In 1950 and 1951, the House of Representatives did pass laws authorizing tax withholding on dividends; but, on both occasions, the Senate refused.[2]

We are at that pass again. In March, 1962, the House approved HR 10650, the Revenue Bill of 1962, with the new withholding provisions in it; and American constitutionalists are working to get the Bill defeated in the Senate (see this *Report*, "Withholding Tax — Part I," April 30, 1962).

Inequities and Hardships

Withholding tax from salaries causes many harsh inequities and personal hardships. Mrs. Howard J. Lobb, Jr., of Kansas City, Missouri, says:

"During 1958, we were required through the withholding system to pay the U. S. government $347.22 more in 1958 taxes than we owed; and it was not returned to us until April, 1959. In 1957, it was $228.33; and in 1956, it was $235.48.

"In 1958, because of medical expense and a few other difficulties, we had to borrow money (at interest, of course) while Uncle Sam was taking out of our wages about $30.00 a month more than he had coming. In January, 1959, in addition to borrowing, we had to sell 25 shares of a private mutual stock fund at $10.00 per share, in order to survive.

"If we could have just kept the $30.00-a-month that government was taking, above what we actually owed in taxes, we could have got by without selling off our retirement income. . . .

"There are others in a more desperate situation than we are. They are people who are out of a job for some months during the year; but when they return to work under the withholding system, their wages are subject to the same tax as those who have been working all year. . . .

"We have four children, and $30.00 a month means a lot to us, but I don't think it means anything to congressmen and senators. They are all 'friends of the little people,' but they are too far removed from people like us to know that it really hurts to take $10 or $20 or $30 a month away from us. They're too busy worrying about how to collect it so they can toss it into a foreign aid program to help people who don't need it as much as we do."

Consider the problems of small businessmen and self-employed persons. It would not do — politically — to make wage-earners pay taxes as they go, while permitting self-employed persons to wait until the following year to pay their taxes; but there is no way to

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withhold a tax from someone who does not have a regular wage. Solution? Make self-employed persons *anticipate* their income for the year, and pay their tax in *advance!* That's what people who are not on salaries have to do. If business is better than they guessed it would be — that is, if the *estimated* tax which they pay in advance for a given year, turns out to be less than they finally have to pay for that year — they are fined for having guessed wrong. If their estimate is wrong in the other direction — that is, if they over-pay their tax in advance—they merely get their own money back without interest, three or four months after the end of the year.

Every year, many small businessmen have to dig into working capital, or borrow at interest, to pay federal taxes on income that has not even been made yet. Federal taxes can force small businessmen into bankruptcy in years when business is bad — because they are paying, during a year when they are suffering losses, federal taxes estimated on the basis of a previous year when there were profits.

The role of unpaid tax-collector, which the withholding law thrusts on employers, is a heavy burden, and has destroyed many small and struggling enterprises. Businesses with enough operating capital can survive the additional burden, by passing it on to consumers in higher prices; but this is one of many governmental harassments which have so inflated the cost of doing business in the United States that American-made goods are being priced out of world markets.

The Primary Evil

There are limitless instances and examples of personal hardship and violation of constitutional rights resulting from the withholding tax system; but the most dreadful consequences of the system can be seen in what it has enabled Washington officialdom to do to our country.

The withholding tax has given government irresponsible power over the lives of the people — *irresponsible* in the sense that those who pay most of the tax are not aware (or only dimly aware) they are paying it; and, therefore, they do not hold governmental officials to strict accounting.

Because of the limitless and irresponsible power which the withholding tax gives him, the President of the United States can bribe political support from members of Congress. In the controversy over packing the House Rules Committee in 1961, Kennedy Administration officials actually promised jobs and federal spending in districts of Congressmen who would go along — actually threatened to cancel spending projects which were already under way and which had been authorized originally because Congress had been told they were "vital" to national defense.[3]

Because of the unrestrained power which the withholding tax gives, the President of the United States, who knows nothing about running an industry and who has no law to support his position, arrogantly rebukes and threatens to punish the steel industry for raising prices. Even if the steel industry's action was bad, from the public viewpoint, the President has no *legal* authority to control prices. Competition among steel producers would provide legal and adequate price controls — if the government would leave producers freedom to compete: if government would stop using its enormous powers to harass and play favorites and subsidize, and to impose cost-inflating practices and conditions upon the industry.

Because the withholding system provides limitless tax money that can be squandered without causing resentment among wage earners who paid the tax, our government can subsidize communist dictators and other enemies of the United States, under the pretext of fighting communism with foreign aid.

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Because the limitless billions that have been spent, on what officialdom calls National Defense, came from wage earners who scarcely realized the money was being confiscated from them — the officials who did the spending can now dare to propose surrendering our national defense establishment to communists and socialists who control all United Nations agencies.[4]

The federal income tax system nourishes the gigantic bureaucracy and finances the programs which are ruining our country; but the withholding system prevents a majority of the people from realizing that they are being forced to pay for their own ruin.

What To Do

American constitutionalists are making headway in educating the general public to understand that federal taxes are paying for programs harmful to the nation — to a realization that the Income Tax Amendment can and must be repealed. But if Congress would just repeal the withholding law, tens of millions, who never have been reached by appeals to intelligence and patriotism, would suddenly realize that *they* are the ones paying for gargantuan waste, extravagance, corruption, and subsidies to foreign dictators.

When these tens of millions of American wage earners, who have a hard time getting by on their salaries, suddenly realized that *they* are paying the bills — they would not put up with it.

They would come to this sudden realization if Congress repealed the withholding tax law; and an over-powering number of them would demand repeal of the Income Tax Amendment.

A man with two deductions who makes $5000.00 a year can adjust himself to $12.80 withheld for federal income tax each week. But let him take all of his earnings home each week; and then, at the end of the year, let him face the problem of raising $665.60 to pay his federal income tax.

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This would undeniably create chaos for the tax collectors, and produce more tax delinquencies than the collectors could count; but it would also set the American people on the road to recapturing control of their own government.

For the first time since the withholding tax law was enacted in 1943, we have a chance — not a good chance, but a fighting chance — to get it repealed. The public is already outraged by efforts to extend the withholding scheme to include earnings on interest, dividends, and investments. More than that, a man of courage in the House of Representatives has taken the first necessary step toward repeal.

On April 30, 1962, United States Representative Bruce Alger (Republican, Texas) introduced HR 11492, to eliminate the withholding of income tax from wages and salaries.

Congressman Alger's Bill does not affect Social Security pay-roll taxes. It does not affect the income tax system itself: it just outlaws the withholding of income tax from wages and salaries.

Adoption of the Alger Bill would have a quick and startling effect. It would jar so many millions of Americans into realization of what is happening to our country, that repeal of the Income Tax Amendment would soon follow.

Every American who cares should write to his own United States Representative, urging him to support HR 11492, a Bill introduced on April 30, 1962, by Representative Bruce Alger to eliminate the withholding of income tax from wages and salaries. He should also write to Mr. Alger, letting that gentleman know the public is behind him.

All United States Representatives can be addressed by name at the House Office Building, Washington, D. C. If you do not know the name of the U. S. Representative from your District, you can find out by calling a local library or newspaper.

You should use every means available to you to get others to write two letters too: one to their own U. S. Representative, and one to Bruce Alger.

FOOTNOTES

(1) On September 23, 1959, Mr. Raymond E. Manning, Senior Specialist in Taxation, Legislative Reference Service, The Library of Congress, sent to United States Representative Gordon Scherer, a special study on the withholding tax system. General history of the system — from the study of 76 economists presented to the Ways and Means Committee in the spring of 1941, to enactment of the Current Tax Payment Act of 1943 — was taken from the special study prepared for Congressman Scherer by the Library of Congress

(2) Speech of Congressman Wilbur Mills, *Congressional Record*, March 28, 1962, p. 4879, column 1

(3) Arthur Krock in *The New York Times*, February 2, 1961; *Time* magazine, February 3, 1961, p. 16; February 10, 1961, p. 14; and February 17, 1961, p. 11

(4) *Freedom From War: The United States Program For General And Complete Disarmament In A Peaceful World*, State Department Publication 7277, September, 1961

WHO IS DAN SMOOT?

Dan Smoot was born in Missouri. Reared in Texas, he attended SMU in Dallas, taking BA and MA degrees from that university in 1938 and 1940.

In 1941, he joined the faculty at Harvard as a Teaching Fellow in English, doing graduate work for the degree of Doctor of Philosophy in the field of American Civilization.

In 1942, he took leave of absence from Harvard in order to join the FBI. At the close of the war, he stayed in the FBI, rather than return to Harvard.

He worked as an FBI Agent in all parts of the nation, handling all kinds of assignments. But for three and a half years, he worked exclusively on communist investigations in the industrial midwest. For two years following that, he was on FBI headquarters staff in Washington, as an Administrative Assistant to J. Edgar Hoover.

After nine and a half years in the FBI, Smoot resigned to help start the Facts Forum movement in Dallas. As the radio and television commentator for Facts Forum, Smoot, for almost four years spoke to a national audience giving both sides of great controversial issues.

In July, 1955, he resigned and started his own independent program, in order to give only one side — the side that uses fundamental American principles as a yardstick for measuring all important issues.

If you believe that Dan Smoot is providing effective tools for those who want to think and talk and write on the side of freedom, you can help immensely by subscribing, and encouraging others to subscribe, to *The Dan Smoot Report*.

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